

Capitalizing on Microenterprise in Rural America

Microenterprise is a long-standing tradition in rural America. Self-reliant households and families have long sustained themselves by successfully patching together a variety of income streams integrating primary farming/ranching activities with other value-added activities both on and off farm.

The Association for Enterprise Opportunity, drawing on Department of Commerce and U.S. Census data, reports that

- Microenterprise employment represents 20.6% of all private (non-farm) employment in rural counties of the United States. (This compares with urban counties, where microenterprise employment represents 17.4% of all private (non-farm) employment in urban counties of the United States.
- And there are 30 states where employment generated by microenterprises is greater than 20% (the range is from 20.1% to a very high 37.9%).¹

These activities have always been both formal and informal, long-lived and opportunistic, year-round and seasonal. In a qualitative study that we conducted in western rural Nebraska, as part of a larger study focused on understanding the intersection between microenterprise and the informal economy, we found robust examples of this blending of economic activities, which together enable families to stay rooted in communities of their choosing. For example, we found that 29 respondents in that study were operating 39 businesses. In addition, we found people who blended formal employment with their businesses, and others who blended informal, cash work with their businesses. In some instances we found people who did all of them together, like one woman we met, Laura, who with her husband is engaged in 8 separate income-generating activities.²

None of this is new or surprising to rural researchers. They represent the way of life of many residents in these communities. So why is it important to think about people and businesses like this in a conference focused on rural entrepreneurship, and in particular, as part of a panel labeled “new opportunities?” Isn’t this just old news?

What’s *relatively* “new” in the long history of microenterprise in rural regions is the emergence of a field designed to help people build more out of these small businesses

¹ <http://www.microenterpriseworks.org/index.asp?bid=162>

² Laura has two formal jobs—as a church secretary and a basketball coach; her husband manages a ranch for an elderly owner; he also works seasonally at a sales barn and for a vet. Laura does informal work, hiring herself out as a day laborer during peak ranching seasons; and she runs two businesses besides, bread baking and house cleaning. The chart shows the various contributions each activity made to the household economic portfolio; while some were small, in toto, all were important. They provided needed cash for the family; they allowed the couple to save towards a future as ranch owners themselves; and they offered a way for them to build in some back-up opportunities in case one or more of their current jobs disappeared.

than they would have on their own. It's designed to deliver capital to places where it's been scarce, to deliver training and technical assistance, and to connect people to information, networks and markets in ways that would not happen on their own. Microenterprise development has the "mission" of helping people not only to start and grow their microenterprises and increase their capacity to generate income, but also to understand and capture new opportunities, and to be competitive in the new, global economy.

The field of microenterprise development in the US has a history of about 20 years. Today there are 193 programs, located in 32 states, which serve rural areas. These programs serve an estimated 21,000 individuals yearly.³ At the end of fiscal year 2004, they also reported having \$37,302,550 outstanding in 2,249 loans.

Rural microenterprise development practice has been evolving. Originally focused on access to capital strategies (both peer and individual), and in basic business planning, training and technical assistance designed to support early business formation, this work was grounded in a conception or understanding that could be described as a gap filling strategy. Microenterprises represented overlooked businesses, outside the mainstream, and the working hypothesis was that removing barriers of access to capital, tools, information etc. would release entrepreneurial potential and benefit not only the business owners, but also their households and communities. Opportunity Finance Network's new motto—"we finance opportunities that others overlook."— still reflects this perspective.

But among microenterprise practitioners, this thinking has evolved as the rural context has changed, as many rural areas have suffered the loss of traditional markets, and of population. Now rural practitioners in the microenterprise field would acknowledge that the strategy isn't just filling in where there are gaps in basic business services. The challenge is much more complex, and the strategy also has to be about much more. It's about:

- fostering even greater self-reliance,
- building not just individual businesses but revitalizing local economies, and
- connecting enterprises to new markets—either across distances or by attracting new consumers to where they are. This has led to the articulation of and experimentation with three strategies. Each is at a different stage of development; and there is the need for greater evidence on the effectiveness of each, but all are worth exploring and understanding better.

I'm going to focus briefly on each one, say a little bit about what we know already (where we do know something), and suggest where there are some interesting opportunities for further research that we think are worth looking at.

Strategy 1: Access to markets

³ Estimate based on analyzing and aggregating data from the U.S. Directory of Microenterprise Programs (2002), and the CDFI Data Project (2004). The count includes all participants reported to the directory plus all technical assistance recipients reported to the CDP.

This strategy is based on the recognition that the size and location of markets is a constraint to the growth and development of microenterprises, and that it's very difficult for many microentrepreneurs to expand their markets individually. It's also based on the recognition that there are a variety of sectors in which rural microentrepreneurs concentrate—specialty foods and crafts are the prime examples, that both could benefit from access to broader markets, and which create enough of a mass around which some services could be developed. This work, however, requires technical expertise, market knowledge, and market development work of a more sustained and sophisticated nature than most microentrepreneurs can pursue on their own. The challenge for programs has been how can they become market developers on behalf of, or with, these entrepreneurs?

Under the rubric, access to markets (ATM), a small but growing number of programs have worked to create new market channels for client products. They have taken on roles that range from creating capacity (product development), to creating venues (brokers, web malls) and actually creating and managing transactions themselves (social enterprises). [See chart.] As can be imagined, there have been some real successes—we can mention AceNet in Ohio as one, and HandMade in America in North Carolina, WREN in New Hampshire and I think Grow in Nebraska is also worth looking at—and some real disappointments.

What have we learned about this?

Apart from learning that it's hard work, in an evaluation of a set of urban and rural programs that we were engaged in from 1998 to 2001, we learned that:

- “Market readiness” is an enormous hurdle for microbusinesses – while they may be ready for very local markets, meeting the requirements of a more regional or national one is a challenge of a higher order. Every ATM program we looked at had to address it in one form or another. There must be a strong product/service development component, and structured ways for microentrepreneurs to better understand what mainstream markets want.
- Successful ATM projects generally must also serve as brokers or “door-openers” to the intended markets. This is very different than the type of general assistance that most enterprise assistance programs offer. In some cases, this has meant creating web malls or retail stores for client products; in other cases, it's meant sponsoring displays at product shows, making introductions to buyers.
- Focusing on one sector or industry (or very similar industry sectors) seems to have greater effectiveness. To be successful in this work requires deep knowledge of the targeted sector, as well as strong connections to it. This kind of knowledge and connection isn't easily won. Picking an industry and sticking with it seems to be the most effective course of action.

- Individualized one-on-one technical assistance is an essential component of an effective ATM project. Group training or other group activities alone won't cut it. This makes it more expensive than other types of services.
- ATM projects need to pay special attention to institutionalizing capacity across a number of staff. While staff turnover represents an inevitable challenge to every nonprofit institution, it creates a formidable barrier to the success of ATM strategies, because so much of the market connection is based on the relationships that staff makes with industry players.
- Cost recovery is a possibility for these initiatives at least in part, but it has proved to take more time and be more challenging than first anticipated. And there is a need to recognize that a set of investments in organizational capacity building and the development of a quality service take some time.⁴

What do we still need to know?

There is a need to better capture both the costs and benefits of these initiatives in a more rigorous way. For example, when we did our look at a set of these Access to Markets strategies, we were able to collect qualitative data fairly well, and some minimal quantitative data, but it was extremely challenging to disaggregate and analyze the true costs of the programs and compare them to the benefits obtained by participants. There is also a need to better understand the relationship between subsidy and self-sufficiency in these models. What are the required sunk costs? And where is ongoing subsidy required and justified, and what levels of sustainability are achievable, when? There is also a need to look more systematically at a broader number of these programs, and in particular, identifying some newer, second generation models to better understand their core features, what is replicable, and how best to replicate them in other rural settings.

Strategy 2: Connecting microenterprise development to larger economic development strategies through participation in entrepreneurship development systems.

Entrepreneurship development systems are defined as a coordinated infrastructure of public and private supports that facilitate entrepreneurship. The concept is based on the premise that a successful entrepreneurship development system (EDS) could have a significant impact on increasing the rates of entrepreneurship, reducing poverty and promoting economic opportunity in distressed rural regions, by:

- Building a pipeline of entrepreneurs; and
- Providing high quality business services and financing through a coordinated system of support tailored to the diverse needs of different types of entrepreneurs.

⁴ These lessons are drawn from Karen Doyle Grossman, A.K. Blair and T. Thetford, *Connectors and Conduits: Reaching Competitive Markets from the Ground Up*. Washington, D.C.: The Aspen Institute, July 2002. The document also contains more specific findings with respect to program experience in assuming a range of marketing roles.

EDS systems are expected to provide a full array of services, and are defined to be:

- Inclusive: Serving diverse types of entrepreneurs (including entrepreneurs at different stages of development and from different populations).
- Market driven: Identifying the needs of the entrepreneurs in the region and developing a plan to penetrate the market.
- Comprehensive and Integrated: Including every element in the system (entrepreneurship education, training and TA, capital access, networks, and culture). And, explicitly considering ways to coordinate and eliminate duplication.
- Outcomes driven: Demonstrating a concrete plan for impact benchmarking and measurement.
- Engaged, genuine, and collaborative system: Including all partners and relevant stakeholders in designing the proposal.

The W.K. Kellogg Foundation has supported six of these collaboratives, operating in 9 states. They are currently about the midpoint of their three year efforts. In each of them, microenterprise development programs have been identified as key players, expected to serve as identifiers of entrepreneurial talent, developers of entrepreneurial and business development skills, and business creators.

Under a program called MicroTest, we collect regular data on the program performance and outcomes of selected programs across the country. And our data on the demographics of rural program clients supports the point that micro programs are detectors of emerging entrepreneurs—at least as defined by gender, ethnicity, and most importantly business status at entry, either pre-business, start-up (that is with less than one year's experience), and ongoing (with more than a year's experience.).

Looking at 26 organizations serving rural areas over the period from 2000 through 2004, we have observed that:

- The percent of women served by these programs equaled or exceeded 44% (the range was from 44% to 64% over those years).
- The percent of minorities equaled or exceeded 21% (range from 21 to 25%).
- The percent of clients in poverty (at or below 100% of HHS at the time of program entry) equaled or exceeded 25% (the range was from 25 to 54%), while the percent of low to moderate income clients (at or below 80% of the HUD median) equaled or exceeded 56% (range from 56 to 73%).
- The percent of pre-business clients was equal to or greater than 20% (range from 20 to 41%).
- The percent of startups (defined as less than a year in business) was equal to or greater than 14%, (with the range over that period from 14 to 30% of all clients served.)

Further, we found that what we call the “immediate” start up rate of new businesses—that is businesses started within the course of the year of assistance ranged from 28% to 51%. Because we know from other work that clients continue to form businesses in the year to two years after receiving services, we would expect that the final business start

rate was higher. We also know that there is an attrition rate over time, but have seen in our broader look at the outcomes microentrepreneurs experience across the country survival rates that match those of the general population of small businesses.

We also find that the businesses are of a very wide variety. While arts and crafts/clothing and jewelry represented 29% of the businesses in one rural program, they were only 10% in the other. Food producers/restaurants and caterers comprised 13% in one and 18% in the other. But there were also construction businesses, repair and mechanics businesses, day and adult care, florists, landscaping businesses, and a wide variety of personal services.

But we have currently very little aggregated outcomes data on rural microenterprises receiving services. Part of this is due to the relative newness of our efforts to engage practitioners in consistent, uniform data collection. Part of it is simply due to the lack of resources at the program level to implement this tracking or finance research on their clients. Gaining sufficient consistency to gather meaningful data across program sites has also been a challenge, and something that needs to be developed.

And in addition, there is a need to know more beyond the simple numbers. A key research question is not only what immediate changes occur as a result of participating in programs, but how do these businesses, and business owners, evolve over time? To what extent can microenterprise programs truly serve as feeders of entrepreneurial talent to the higher levels of business development assistance that are part of the economic development systems in their states? What features do programs successful at this function have?

Under the Kellogg Foundation program, there are six site level evaluations currently underway that will be examining these issues and more. In addition, we have just been contracted to develop a national level review to see what the various pilots tell us overall about the role of these EDS in developing and nurturing a growing number of entrepreneurs, and in developing collaboratives that are effective in providing the right services to these entrepreneurs and in achieving change at the community level. Whatever we'll be able to do with this research, however, will only be the beginning of what can be learned. This offers tremendous opportunities for additional research. In particular, we would suggest that there will be a need to:

- Track the evolution of these EDS over a longer period of time to understand how these emergent systems develop and what contributions they make.
- Explore how microenterprise development practice fits within and serves the larger process of entrepreneurship development
- Document community impacts in greater detail, as well as
- Document the longer-term experience of entrepreneurs who participate in these systems.

Strategy 3: Regional Flavor as an avenue to community revitalization

This strategy is similar to and different from the first two strategies discussed. Like the sectoral-focused access to markets work, Regional Flavor is also about accessing markets. In the first instance, the strategy is about creating connections and mechanisms for entrepreneurs in a given sector, and often seeks to find markets for producers across distances. The notion of regional flavor, on the other hand, is focused on how to build the market for a local or regional economy as a whole. Like the entrepreneurship development systems strategy, Regional Flavor is also about collaboration. But while in the first instance, the emphasis is on bringing together business development resources of a wide variety, in this instance, the collaborations are even broader, and are envisioned to include institutions engaged in promoting tourism, historic preservation, Main Street programs, US Forest Service or other government agencies, economic development entities, specialty food enterprises, music venues, artisan studios, destination management organizations, and so forth.

As defined in a recent publication produced by the Association for Enterprise Opportunity (the trade association for the microenterprise development industry), “The ‘Regional Flavor’ concept... refers to combining an area’s unique attributes to provide an accessible experience for local residents and visitors. Through a Regional Flavor strategy, rural development work is tied together across sectors, geographic boundaries and other divisions, accelerating the growth of new economic opportunities. ‘Flavor’ refers to the variety of home grown ingredients (or attributes) all contributing to a single recipe (or experience), where each ingredient still makes a unique contribution. The area becomes known for this exciting, organic identity, where a person can have authentic and varied experiences.”⁵

The tenets of a regional flavor framework include:

- Supporting locally owned businesses to be unique and continually innovative.
- Identifying an area’s specific assets and developing ways to add value to them.
- Weaving these assets together—artists, specialty food producers, local heritage, recreation opportunities etc.— and creating practical activities across political jurisdictions.
- Encouraging visitors and residents to develop long term emotional bonds with the region.
- Being strategic about connecting urban and rural regions in the area.⁶

Drawing on Richard Florida’s book, *The Rise of the Creative Class*, the Regional Flavor concept is about developing “unique, vibrant communities” not only to attract tourists, but also a variety of businesses, such as high tech businesses, that can be based anywhere.⁷

So what does this look like in practice? The Association for Enterprise Opportunity is actively promoting work in this area now. While this is an idea that is clearly more than

⁵ Association for Enterprise Opportunity, *Regional Flavor: Marketing Rural America’s Unique Assets*, Arlington, VA: AEO, 2006, p. 4.

⁶ Ibid, p. 6-9.

⁷ Ibid., p.7.

micro, and like the EDS concept requires the collaboration of a broad array of regional actors, microenterprise organizations are engaged in and taking leadership in some of these initiatives given the contributions that microenterprises both can make to their success, and given the benefits that microenterprises will derive from them.

With funding from the W.K. Kellogg Foundation, AEO has just selected six programs to participate in a learning cluster over the next several years designed to support and advance work in this area. Among the projects are:

- The White Earth Land Recovery Project in Minnesota focused on the development of a set of Native American assets, and on cultural tourism centered on 47 lakes and 500 bodies of water on the reservation of the Anishinabe people, the production and preservation of their wild rice resource, and the cultivation of other native foods and crafts.
- An effort to build a broader regional flavor brand for the Ohio Appalachian counties—encompassing arts and crafts, food and farms, recreation and scenic beauty, and entertainment—and based on the already developed work of ACENet around a “Foods We Love” brand for southern Ohio food producers.
- An Arkansas Delta Rural Heritage Development initiative involving a 15 county area along the Mississippi river in east Arkansas. The effort looks to the creation of a Delta-Made brand, Delta Kitchens and Delta Stores all featuring locally produced products, and encompassing heritage tourism, landmark preservation and rehabilitation, local business development, and imaging and branding.
- The Concord Grape Belt Heritage Association-sponsored effort focused on the Lake Erie Concord grape area of western New York and Pennsylvania, and dedicated to capitalizing on the region’s position as the largest grape growing region in the US outside of California. One emphasis will be on supporting microentrepreneurs to produce grape-related specialty foods. Other elements include tourism, promotion of a regional cuisine, the exploration of a processor to school program for grape juice.
- An initiative in Nebraska to develop a brand called Nebraska Nuances and first focused on combining cultural tourism with birdwatching opportunities in rural areas.
- An effort in San Luis Valley, a six county, bicultural area in Colorado dedicated to increasing the capacities of small and micro businesses to be effective in the tourism industry, and to growing the Valley Farmers’ Market as a magnet.

Clearly, there is going to be much to learn about and from these initiatives. And we will be supporting AEO in its learning agenda on this theme. Among the questions we and they have identified are:

- What are the local conditions, and local capacities of participating organizations required to make this work?
- What are the practical lessons that can be transferred from site to site?
- What are the policy implications/requirements?
- And probably most importantly, how will we measure the success of these ventures?

I hope this gives you an overview of where new opportunities exist to engage, capitalize on, and support microentrepreneurs as part of an agenda to encourage entrepreneurship. From our perspective, rural microenterprise practitioners appear to be creative, risk taking, open to collaboration, and committed to looking at their work as part of a larger process to build stronger local businesses and healthier communities. To push that agenda forward, there is a need for and a desire for an accompanying research agenda that can provide the data for “just in time” learning, that can inform practice on the ground, and that can be rapidly translated into action. To the extent that there are willing and interested researchers to join in this process, the field can only move faster.